



Strathprints Institutional Repository

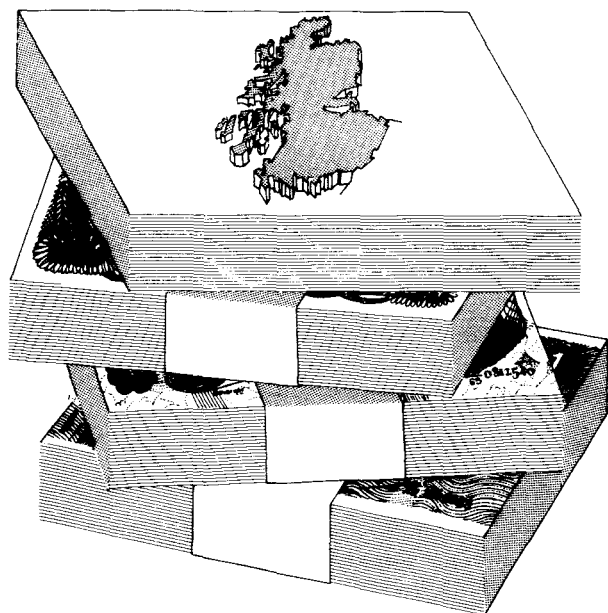
Bell, David N. F. and Hart, S. and Kirwan, Frank X. and McGilvray, James W. and Moar, L. and Morton, A. J. and Simpson, David R. F. and Wingfield, Alison A. and , Fraser of Allander Institute (1979) The Scottish economy [January 1979]. Quarterly Economic Commentary, 4 (3). pp. 5-22. ISSN 0306-7866 ,

This version is available at <http://strathprints.strath.ac.uk/50278/>

Strathprints is designed to allow users to access the research output of the University of Strathclyde. Unless otherwise explicitly stated on the manuscript, Copyright © and Moral Rights for the papers on this site are retained by the individual authors and/or other copyright owners. Please check the manuscript for details of any other licences that may have been applied. You may not engage in further distribution of the material for any profitmaking activities or any commercial gain. You may freely distribute both the url (<http://strathprints.strath.ac.uk/>) and the content of this paper for research or private study, educational, or not-for-profit purposes without prior permission or charge.

Any correspondence concerning this service should be sent to Strathprints administrator: strathprints@strath.ac.uk

The Scottish Economy



PRODUCTION

The overall index of industrial production for Scotland* rose by 1.7 points between the first and second quarters of 1978 to 107.8 (Figure 8).

It must be emphasised

however, that these indices are provisional and subject to revision, as in the case of the first quarter index which has been revised downwards from that quoted in the last Commentary. The index for manufacturing industries continued to follow the pattern of the overall index, rising by 1 point to 104.2. For the UK, the index rose by 4.1 to 111.2 in the second quarter of 1978. However, at this time, direct comparisons between the Scottish and UK production indices are not valid because the UK index has been rebased to 1975, while the Scottish index continues to be based on 1970. It is hoped to rebase the Scottish index to 1975 in the near future.

The indicators of the level of activity in manufacturing industry as reported in the CBI Industrial Trends Survey for Scotland, October 1978 are

generally indifferent, though experiences within the individual industry groups vary widely (see Industrial Performance). The percentage of firms reporting below capacity working has fallen from 64% in July to 56% in October (Figure 9). This figure is remarkably stable for all sizes of firm. The corresponding UK percentage figure, maintaining the slow but steady decline exhibited throughout last year fell from 64% to 60%. Changes in the volume of output reported by firms in the four months up to October varied markedly according to size of firm. A balance of 9% of small firms (0-199 employees) reported an increased volume of output over the period, while decreased output volume was reported by a net of 1% of medium size firms (200-499 employees) and 3% of large firms (500 + employees). Output declined in a net 1% of respondents, compared with a rise of + 5% in July. A balance of 5% of firms expected their volume of output to increase in the four months following October, medium size firms being the most optimistic. For the UK as a whole, increased output volume was reported by a balance of 5% and a net 22% expect increases in the next four months, a fairly strong short term forecast.

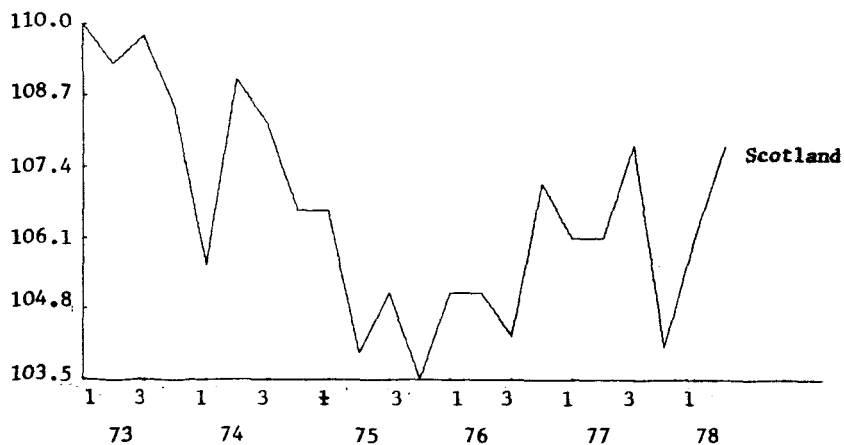
According to the CBI the volume of production of Scottish manufacturing industry is not particularly encouraging, especially amongst the larger firms. Other indicators, however, are not so pessimistic as the CBI Survey, whose respondents tend to err on the side of pessimism. (See The CBI Industrial Trends Survey in Scotland : A Quantitative Appraisal by David Bell, Fraser of Allander Institute Quarterly Economic Commentary, July 1978, Vol.4 No.1).

The number of company formations in the last quarter of 1978 rose almost to the peak recorded in the second quarter of 1978 (Figure 10). Following a similar

* Unless otherwise stated, indices refer to the seasonally adjusted Index of Industrial Production for Scotland 1970 = 100.

INDUSTRIAL PRODUCTION. TOTAL (SEAS ADJ)

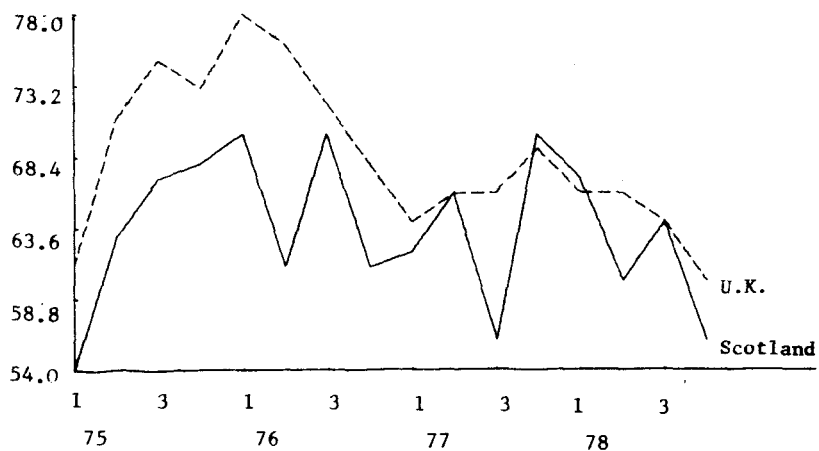
Figure 8



Source: Scottish Economic Planning Department

EXCESS CAPACITY : CBI SURVEY

Figure 9

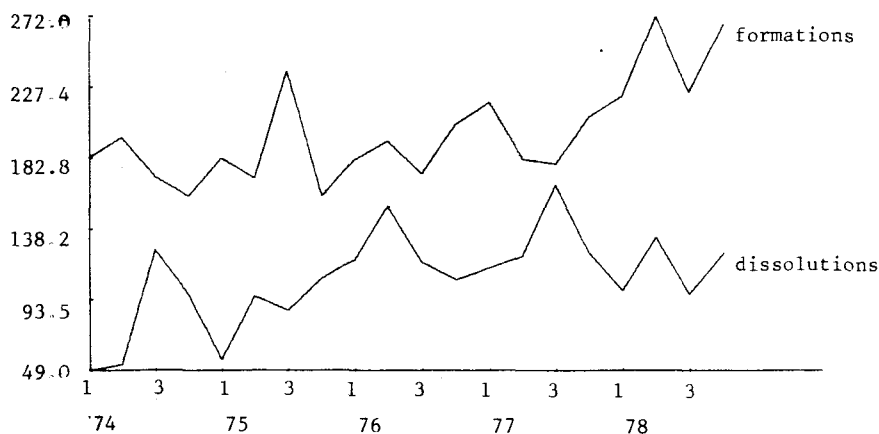


Source: CBI Industrial Trends Survey

reverse pattern, the number of dissolutions fell to almost the level of the second quarter. As an indicator of economic activity, these figures are optimistic.

SCOTTISH COMPANY FORMATION AND DISSOLUTION

Figure 10



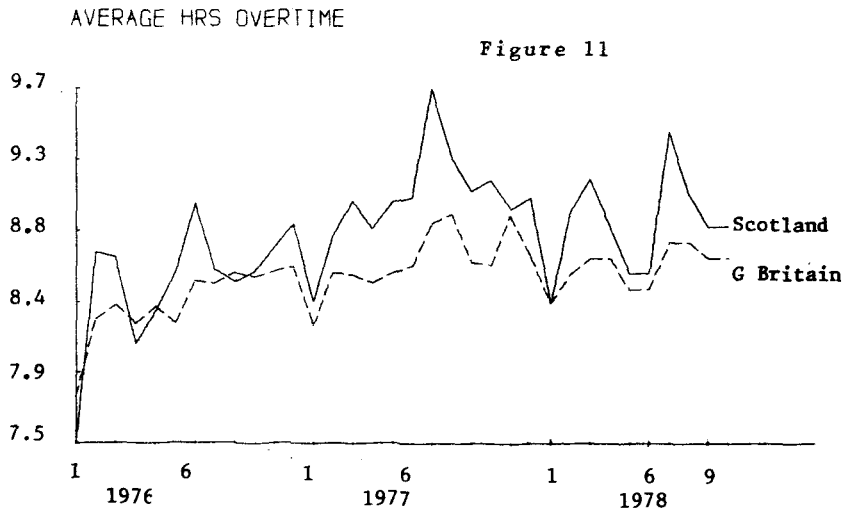
Source: Registrar of Companies

Both in Scotland and GB as a whole, the average number of hours overtime worked per operative working overtime, fell in October from the relatively high levels recorded in July, but for different reasons (Figure 11). In Scotland, the fall to 8.90 hours was influenced by the number of operatives working overtime rising by a proportionately greater amount than the rise in the total number of hours of overtime worked. The rise in total overtime hours could have come about due to pressure being placed on the supply of skilled workers and indeed the CBI Survey reports a shortage of skilled labour as one of the factors most likely to limit growth in output. A spreading out of growth in output to cover more sectors also seems to be indicated by the Scottish results. Great Britain experienced a small drop in the number of hours overtime worked between July and October and a small rise in the number of operatives working overtime, resulting in a decline in average overtime hours to 8.70. Taken together, the production indicators imply that a slow increase in production occurred throughout 1978 and some further growth may be expected in 1979.

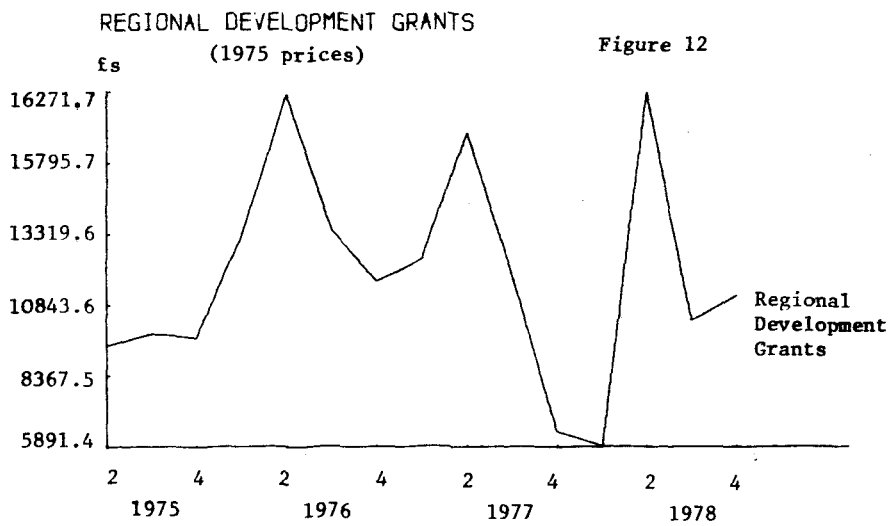
INVESTMENT

The estimated index of industrial production for investment goods fell by 2.7 points during the second quarter of 1978 to 89.2. As in the case of the overall index of production, the first quarter figure has been revised downwards from that quoted in the last Commentary, and again it should be emphasised that these indices are provisional. The UK index also indicates a drop in the production of investment goods in the second quarter, but since

then a small recovery has occurred.



Source: Department of Employment Gazette



Source: Trade & Industry

After a fairly buoyant report in July, the October 1978 CBI Survey for Scotland indicates a return to the lower level of investment intentions recorded in April. The balance of firms expecting to authorise more capital expenditure in the twelve months from October than they did in the previous year on buildings has fallen from -1% in July to -15%, and on plant and machinery from +12% to -3%. Medium size firms show the most optimistic expectations; a balance of -10% expect to spend more on buildings and +9% on plant and machinery. Small firms forecast the lowest level of capital expenditure authorisations. In the UK as a whole, a balance of -11% hope to spend more on buildings, and +10% on plant and machinery in the year from October than they did in the previous twelve months. These intentions, though more optimistic than those for Scotland, represent a slowing up of capital expenditure authorisations in line with previous cycles. The percentage of firms reporting adequate capacity to meet expected demand rose from 75% in July to 83% which accords with the reported reduction in expected capital expenditure authorisations. By size of firm, small firms recorded the highest percentage of adequate capacity and medium-sized firms the lowest, again in line with their respective levels of capital spending authorisations. These results conflict somewhat with the Scottish Council's prediction of an increase in the level of manufacturing investment in 1979.

At current prices, Scotland received £15.7 m in Regional Development Grants (over £25,000) in the third quarter of 1978, representing a rise of just over £1m from the second quarter figure. The value of grants at constant prices has changed base in this issue from 1970 to 1975 prices. The third quarter figure at constant (1975) prices shows a slight increase in the real value of the grant from the previous quarter, and is almost twice the value of the grant received in the third quarter of 1977 (Figure 12). The total value of grants received in the first three quarters of 1978 amounts to £4.5m more than for the corresponding period of 1977.

A further indicator of investment is the value of new orders received by contractors for private, commercial and industrial construction. This declined by about £12m during the third quarter of 1978 from the static figure of £84m recorded in the previous two quarters.

Taken together, the investment indicators do present a conflicting view of the current situation. However, if one takes the view that the CBI Survey is slightly cautious and that an increase in investment is likely to be concentrated on plant and machinery rather than buildings, then there is scope for a small expansion of manufacturing investment in 1979, though perhaps at a lower rate than that of 1978.

INDUSTRIAL PERFORMANCE

AGRICULTURE The EEC Commission have already announced a freeze on farm prices for 1979/80 in anticipation of the formal proposals to be discussed later in the month. The Italians have stated they intend to reduce the green lira rate by 5% and it is expected that the British will request a 5% devaluation of the green pound. The change of unit of account for farm products to the European currency unit from 1 January will be manipulated so that there will not be any immediate effect on prices in the UK.

In contrast to the high yields in England and Wales, a random sample survey by the Department of Agriculture and Fisheries in Scotland reported an 18% decline in cereal production in 1978. The areas under wheat and oats fell by 3% and 9% respectively, but, in spite of EEC and world over-supply of barley, acreage of barley rose by 5%. The same survey reported a 5% drop in potato production. The prospects of a potato regime are still remote, and the judgement of the European Court on the Dutch challenge to the UK import ban on potatoes is imminent.

A recent forecast for UK meat consumption in 1985 by the Meat and Livestock Commission predicted a 10% decline in mutton and lamb consumption, 3% decline in beef, stable demand for bacon and ham, and a 15% rise in poultry. UK production of pig meat and lamb would increase by 25% and 10% respectively, beef would remain stable and lamb and beef exports would rise substantially. Recent Scottish figures confirm the predicted upward trend in the pig market. Gilts in pig in December showed a 20% increase. Lamb prices have fallen consistently since November and with the French market closed to UK producers they are looking to other European markets. Beef prices were also at a seasonal low point.

FISHING A common EEC fisheries policy has still not been agreed. The British proposal to a meeting of Fisheries Ministers in November was rejected by the other eight members as discriminatory to other members and therefore contrary to the Treaty of Rome. The British plan, criticised by the fisheries organisations as insufficient to safeguard their interests, contained three main points, including the continued demand for a 12 mile exclusive zone. A new effort to solve the deadlock is to be made at the end of January when a set of proposals will be made by the Commission. Although it insists that there should be no discrimination against EEC boats in British waters, some Europeans feel that British demands could be met without violating the Treaty, by introducing regional and other measures to protect communities largely dependent on fishing.

Landings of fish in Scotland (worth £108m) for the first ten months of 1978 were 381,062 tonnes. The 26,524 tonnes rise over the same period in 1977 was accounted for by the increased mackerel catch during the summer as herring fishermen, for example, switched to mackerel. Landings of mackerel rose from 54,026 tonnes (worth £4.3m) in 1977 to 107,931 (worth £9.7m) in 1978. Shellfish landings showed a significant rise in value - from £12.9m to £16.9m. The continued herring ban and quota restrictions on haddock are also reflected in the landings, the former declined from 31,067 to 13,432 tonnes and the latter from 82,594 to 57,503 tonnes.

After gloomy reports there are some suggestions that the herring conservation measures are taking effect - shoals of two year old herring have been sighted off the Minch. The communities dependent on fish processing have been badly

affected by the decline in stocks and pressure on fishing grounds. A processor in Yell on the Shetland island of Whalsay has already closed. On the west coast there has been considerable opposition from the fishermen's associations to the proposed fishmeal factories on Lewis and Barra.

OIL & GAS

Production of North Sea oil averaged 1.281m barrels a day in November. Two fields, Ninian and Heather, have come on stream since the autumn, while the Sullom Voe terminal in Shetland was opened (for storing and dispatching oil) in November. Oil, piped from the Ninian, Heather, Dunlin and Thistle fields is flowing to the terminal at the rate of 250,000 barrels a day although it will be 1980 or 1981 before gas related products can be processed.

Recent statistics confirm that the North Sea has entered a mature phase in its development with the discovery and exploitation of more marginal fields in contrast to the large early discoveries. From January to June 1978 2 finds from 40 wells had been made compared with 10 finds from 58 wells in 1977. The average size of the fields have also decreased from 200m barrels in 1976, to 100m in 1977, to less than 50m in 1978. BNOG has had encouraging results from a second well drilled on block 30/17b east of the Firth of Forth and BP has had better results from its third well on block 206/3 west of Shetland.

Applications for licenses for the sixth round closed in November. There were 55 applications for the 46 blocks on offer - mainly reflecting interest from smaller companies rather than a continuing interest from the larger concerns. The blocks were not considered of great geological interest and the government's new terms and conditions have been much criticised by the oil companies. Exxon and Esso did not apply for licenses, while Shell restricted its application to blocks west of Shetland, and Conoco, interested in the same area, only applied as part of a consortium led by Elf.

Shell-Esso have applied to the Department of Energy for approval of their development plans for North Cormorant, although some observers felt that the proposed increase in petroleum revenue tax might have put the project in jeopardy. Investment in the region of £700m is envisaged with a possible further £200m if the company goes ahead with a subsea development for exploiting other reserves in the area. BP's plans for the Magnus field have been approved. The decision on the utilisation of associated gases, thought to have delayed the agreement, may be an indication of government policy on future development plans. A pipeline from Magnus, and later other fields, will be linked with the Brent line and co-operation with finance will be given by BNOG and the British Gas Corporation. BP's investment is estimated at £1.25bn and production should start by 1983.

In the light of the government's proposed tax increases, mentioned earlier, two recent studies on the current profitability of North Sea Oil companies are of interest. In Wood Mackenzie's review of the finances of existing oil fields they report sharp rises in operating costs - in some cases more than double the previous year. Taking these rises in operating costs, delays, proposed tax increases and other factors into consideration, the brokers have revised downwards their estimates of the rates of return from each field. In some cases these now fall below a commercially accepted level. A study at Aberdeen University on the proposed changes in North Sea taxation indicates that the higher PRT will reduce the profitability of many fields with many marginal fields being liable to pay the tax.

It is estimated that gas from the Frigg field will supply nearly 30% of current UK supply by the end of the year. The dilemma of maintaining oil production, while discouraging the flaring of gas will grow if the Sullom Voe processing

plant is not ready to receive associated gases by the end of 1980. Although consent for gas flaring has been given for the lifetime of fields like Auk and Argyll, a limited time period was given to Thistle, Brent and Montrose. The recent Magnus plan suggests that the government may be insisting that an adequate solution is found for associated gases before oil development is approved. The Department of Energy appears to have accepted the main conclusions of the Gas Gathering Pipelines Group to establish a limited network for collecting associated gases based on the Frigg and Brent lines.

FOOD, DRINK
& TOBACCO

Continuing to benefit from increases in disposable income, output of food, drink and tobacco was maintained at a high level during the second quarter of 1978 with its production index* remaining at 121. However, because UK sales of food have fallen slightly in the third quarter, and UK production also having declined, the likelihood is that recorded Scottish output will exhibit a slight drop when third quarter figures become available. More recent data from the CBI suggest that in the four months to October, the volume of output changed little and no significant variation was expected during the subsequent four months.

The CBI results also demonstrate that a fairly large proportion (58%) of their respondents in this industry are working close to capacity. Further, 26% of their respondents claim that their stocks are less than adequate. As one might then expect, investment intentions in this sector are strong relative to other industries, with a balance of 10% of firms expecting to spend more on plant and machinery over the next 12 months. Since CBI surveys generally err on the side of pessimism, the actual increase in investment may be of even greater magnitude.

WHISKY

Whisky production continues to rise. Output for the first nine months of 1978 was 123,761,000 proof gallons compared with 106,722,000 proof gallons in the previous year. The third quarter figure upheld the increase - showing a 16.1% rise over the third quarter of 1977.

The problem of bulk malt whisky exports has not been resolved. There are fears that the Japanese Suntory Co (including malts exported in bulk from Scotland in their whisky) intend to move into traditional Scotch export markets. The NEDO working party report on the whisky industry was published in December, and although it was critical of the bulk shipments and advocated restraint, it failed to set up a policy of restraint. A majority of the working party were in favour of a voluntary policy involving a two year trial period holding shipments to their present level, but because a few firms, particularly the two American owned distilleries, opposed the scheme, making monitoring difficult, it was decided not to proceed. The report also identified 350 separate barriers to trade (many in EEC countries) and urged the government to increase their efforts to reduce restrictions.

Compliance with the working party's request to restrict exports of bulk malts is not expected and it is anticipated that exports will continue to climb. Exports of bulk malt whisky, for the first nine months of 1978, were 7,997,000 proof gallons - 24.4% higher than for the same period in 1977. Overall, exports rose to 76,016,000 proof gallons - a rise of 8.7%. A 12% price increase for all whisky exports, excluding the EEC and the United States, was announced in December.

*. Unless otherwise state, index of production figures refer to the seasonally adjusted index of production.

CHEMICALS, COAL
& PETROLEUM
PRODUCTS

A further rise in the output of chemicals, coal and petroleum products lifted the index to 143 in the second quarter of 1978. In the UK as a whole, growth was maintained in the third quarter and the CBI Survey confirms that 57% of their Scottish respondents were working at full capacity in October; the indications are therefore that growth in this sector is continuing. Export markets are expected to be particularly buoyant, with a balance of 73% of firms expecting an increase in orders.

Also, given the high level of capacity utilisation, it is not surprising that investment intentions, as reported by the CBI, are strong, particularly with regard to plant and machinery. BP plan to spend £50m on an ethanol plant at Grangemouth, with completion expected in early 1982. ICI are upgrading their establishment at Stevenston by building a £10m effluent disposal system. However, prospects for the Moss Morran project are still uncertain with the Secretary of State awaiting advice on safety considerations.

METAL
MANUFACTURE

Output of metals increased by 6% between the first and second quarters of 1978 and so attained 71% of 1970 production levels. However, with UK output falling by 5.5% in the third quarter and a pessimistic response to the October CBI Survey, the outlook for this industry is gloomy. The expected trends in orders, output exports and investment are all downward. The outlook for employment in this sector is also depressed, with a balance of 54% of firms expecting to cut their workforce. 750 men operating the open hearth process at Glengarnock were made redundant in late December.

ENGINEERING

A drop in output of the engineering industries resulted in the index of production falling from 95% to 93% of 1970 levels between the first and second quarters of 1978. In the UK as a whole, no change occurred in this period, but a rise of 1.1% took place in the third quarter. The Scottish CBI Survey of the engineering industries indicates a moderately optimistic view of the four months preceding, and the four months following October 1978. Although stocks were felt to be too high, a balance of 6% of firms expected to increase output, and 38% of firms were working at full capacity. It is noteworthy that 38% of engineering firms (higher than any other main industry group) felt that lack of skilled labour was a significant constraint on output.

Within engineering, marked differences in performance occurred between the first and second quarters of 1978. Output in mechanical and instrument engineering fell by 1% while that in shipbuilding and vehicles declined by a massive 15%. In contrast, electrical engineering expanded by 2%, while other metal goods grew by over 10%. The divergences of performance within engineering are at least as great as those between engineering and any other sector.

Even with the small expansion recorded in the second quarter of 1978, output of mechanical engineering goods was still 19% below 1970 levels. After seeming to stage a recovery in late 1975 and early 1976, this industry, normally considered a mainstay of Scotland's industrial base, has declined sharply. Continual erosion of its competitiveness, coupled with a general slackness in world trade, particularly in heavy engineering goods, have contributed to this position. In the short-term, however, the indications are that present levels of output are likely to be maintained. Indeed, if sterling remains stable or drifts slightly downward and there is some expansion of domestic investment (see Leading Indicators), there is some prospect of a small expansion during 1979.

The production of vehicles increased towards the end of 1978, following the damaging disputes which affected output earlier in the year so that some reversal of the 15% decline in the index mentioned above can be expected when third quarter figures become available. However, a number of problems remain.

plant is not ready to receive associated gases by the end of 1980. Although consent for gas flaring has been given for the lifetime of fields like Auk and Argyll, a limited time period was given to Thistle, Brent and Montrose. The recent Magnus plan suggests that the government may be insisting that an adequate solution is found for associated gases before oil development is approved. The Department of Energy appears to have accepted the main conclusions of the Gas Gathering Pipelines Group to establish a limited network for collecting associated gases based on the Frigg and Brent lines.

FOOD, DRINK
& TOBACCO

Continuing to benefit from increases in disposable income, output of food, drink and tobacco was maintained at a high level during the second quarter of 1978 with its production index* remaining at 121. However, because UK sales of food have fallen slightly in the third quarter, and UK production also having declined, the likelihood is that recorded Scottish output will exhibit a slight drop when third quarter figures become available. More recent data from the CBI suggest that in the four months to October, the volume of output changed little and no significant variation was expected during the subsequent four months.

The CBI results also demonstrate that a fairly large proportion (58%) of their respondents in this industry are working close to capacity. Further, 26% of their respondents claim that their stocks are less than adequate. As one might then expect, investment intentions in this sector are strong relative to other industries, with a balance of 10% of firms expecting to spend more on plant and machinery over the next 12 months. Since CBI surveys generally err on the side of pessimism, the actual increase in investment may be of even greater magnitude.

WHISKY

Whisky production continues to rise. Output for the first nine months of 1978 was 123,761,000 proof gallons compared with 106,722,000 proof gallons in the previous year. The third quarter figure upheld the increase - showing a 16.1% rise over the third quarter of 1977.

The problem of bulk malt whisky exports has not been resolved. There are fears that the Japanese Suntory Co (including malts exported in bulk from Scotland in their whisky) intend to move into traditional Scotch export markets. The NEDO working party report on the whisky industry was published in December, and although it was critical of the bulk shipments and advocated restraint, it failed to set up a policy of restraint. A majority of the working party were in favour of a voluntary policy involving a two year trial period holding shipments to their present level, but because a few firms, particularly the two American owned distilleries, opposed the scheme, making monitoring difficult, it was decided not to proceed. The report also identified 350 separate barriers to trade (many in EEC countries) and urged the government to increase their efforts to reduce restrictions.

Compliance with the working party's request to restrict exports of bulk malts is not expected and it is anticipated that exports will continue to climb. Exports of bulk malt whisky, for the first nine months of 1978, were 7,997,000 proof gallons - 24.4% higher than for the same period in 1977. Overall, exports rose to 76,016,000 proof gallons - a rise of 8.7%. A 12% price increase for all whisky exports, excluding the EEC and the United States, was announced in December.

*. Unless otherwise state, index of production figures refer to the seasonally adjusted index of production.

CHEMICALS, COAL
& PETROLEUM
PRODUCTS

A further rise in the output of chemicals, coal and petroleum products lifted the index to 143 in the second quarter of 1978. In the UK as a whole, growth was maintained in the third quarter and the CBI Survey confirms that 57% of their Scottish respondents were working at full capacity in October; the indications are therefore that growth in this sector is continuing. Export markets are expected to be particularly buoyant, with a balance of 73% of firms expecting an increase in orders.

Also, given the high level of capacity utilisation, it is not surprising that investment intentions, as reported by the CBI, are strong, particularly with regard to plant and machinery. BP plan to spend £50m on an ethanol plant at Grangemouth, with completion expected in early 1982. ICI are upgrading their establishment at Stevenston by building a £10m effluent disposal system. However, prospects for the Moss Morran project are still uncertain with the Secretary of State awaiting advice on safety considerations.

METAL
MANUFACTURE

Output of metals increased by 6% between the first and second quarters of 1978 and so attained 71% of 1970 production levels. However, with UK output falling by 5.5% in the third quarter and a pessimistic response to the October CBI Survey, the outlook for this industry is gloomy. The expected trends in orders, output exports and investment are all downward. The outlook for employment in this sector is also depressed, with a balance of 54% of firms expecting to cut their workforce. 750 men operating the open hearth process at Glengarnock were made redundant in late December.

ENGINEERING

A drop in output of the engineering industries resulted in the index of production falling from 95% to 93% of 1970 levels between the first and second quarters of 1978. In the UK as a whole, no change occurred in this period, but a rise of 1.1% took place in the third quarter. The Scottish CBI Survey of the engineering industries indicates a moderately optimistic view of the four months preceding, and the four months following October 1978. Although stocks were felt to be too high, a balance of 6% of firms expected to increase output, and 38% of firms were working at full capacity. It is noteworthy that 38% of engineering firms (higher than any other main industry group) felt that lack of skilled labour was a significant constraint on output.

Within engineering, marked differences in performance occurred between the first and second quarters of 1978. Output in mechanical and instrument engineering fell by 1% while that in shipbuilding and vehicles declined by a massive 15%. In contrast, electrical engineering expanded by 2%, while other metal goods grew by over 10%. The divergences of performance within engineering are at least as great as those between engineering and any other sector.

Even with the small expansion recorded in the second quarter of 1978, output of mechanical engineering goods was still 19% below 1970 levels. After seeming to stage a recovery in late 1975 and early 1976, this industry, normally considered a mainstay of Scotland's industrial base, has declined sharply. Continual erosion of its competitiveness, coupled with a general slackness in world trade, particularly in heavy engineering goods, have contributed to this position. In the short-term, however, the indications are that present levels of output are likely to be maintained. Indeed, if sterling remains stable or drifts slightly downward and there is some expansion of domestic investment (see Leading Indicators), there is some prospect of a small expansion during 1979.

The production of vehicles increased towards the end of 1978, following the damaging disputes which affected output earlier in the year so that some reversal of the 15% decline in the index mentioned above can be expected when third quarter figures become available. However, a number of problems remain.

Production of combine harvesters by Massey-Ferguson at Kilmarnock is almost certain to cease by mid-1980 with 1000 jobs being lost. Continued production of cars at Linwood is very much dependent on what view the Peugeot-Citroen group take of the plant's viability. Output of the Sunbeam has improved dramatically in recent months and the unions hope to be able to persuade their new management that investment at Linwood should continue.

World shipbuilding order books in September were at their lowest level for 13 years. With over 80% of these orders due to be filled by the end of 1979, the slump in merchant shipping in particular, is not expected to bottom out until 1981 at the earliest. British Shipbuilders booked only one new order during the third quarter of 1978 although ten contracts were in the pipeline in November awaiting EEC approval of the government's £85m intervention fund. After reporting losses of £108m for the first nine months of 1978 British Shipbuilders have submitted their corporate plan for consideration by the government. It proposes reducing British Shipbuilder's UK capacity by 1981 by cutting back merchant shipping by 35% involving a loss of 12,300 jobs in that section of the industry. (It is hoped that many could be re-deployed in the warship and offshore oil industry.) The intervention fund would be increased to £100m a year for the next three years and a common pay negotiating machinery is already being sought. As expected, there is resistance to the idea from high wage yards like Govan where a common rate would bring only productivity rises this year. British Shipbuilders are to produce a series of plans to identify which yards might close, although complete closure of any of the main companies is ruled out.

In Scotland there have been individual signs of contraction during the last few months. James Lamont, the largest privately owned company is to suspend its shipbuilding operation, with a loss of 90 jobs, and concentrate on the ship-repair side. Scott Lithgow are to close their ship-repair business with a subsequent 200 redundancies and expect a further 168 redundancies, 25% of the workforce in their engineering works unless a definite order is obtained by March. Other yards within the Scott Lithgow group have a brighter future. They are to start work on the £60m emergency support vessel for BP in the spring, and are leading a group bidding for a similar vessel for Shell. Ferguson Brothers, part of the group, have a £3.6m order for a fishery protection ship to be completed by 1980. With the exception of Scott Lithgow, delivery dates for orders in progress do not extend far into the 1980's and further layoffs are to be anticipated. Yarrow's order book stands at £250m and reflects the greater strength of the warship market. Robb Caledon and Govan are still working on contracts for the Polish order.

Electrical engineering continues to benefit from the booming electronics industry, in which Scotland has managed to establish a firm foothold as one of the major production areas in Europe. Motorola have announced a £10m expansion plan for their East Kilbride plant which should increase employment by around 200. Further, there are hopes that additional North American companies, such as Texas or Mostek can be attracted to Scotland in the near future. In other parts of the electrical engineering industry, the outlook is not nearly so buoyant. In particular, the Singer sewing machine plant at Clydebank is likely to lose upward of 2000 jobs because of its inability to maintain its share of the world sewing machine market.

TEXTILES, LEATHER AND CLOTHING

A 1% increase in the production of textiles, leather and clothing between the first and second quarters of 1978 resulted in production rising to 12% above 1970 levels. Retail sales of clothing and footwear in the UK expanded by 6% between the first and third quarters of 1978 so there has been no shortage of effective demand. However, increasing import penetration of domestic markets continues to worry the industry. The October 1978 CBI Survey in Scotland revealed that a net 3% of firms in this sector had increased output in the previous four months. Curiously, a balance of 15% expected to increase output

in the next four months even though 41% of respondents claimed that stocks were more than adequate. Again, though capacity utilisation was fairly high at 45%, investment intentions were surprisingly weak with a balance of 31% of firms expecting to spend less on plant and machinery in the next 12 months. With high levels of domestic demand likely to continue through at least the first half of 1979, the short-term outlook is probably one of further modest output expansion.

Interestingly, two textile companies based in North America announced expansion plans for their Scottish plants during December. Assisted by the SDA, Kingston Yarn Spinners, a Canadian firm, expect to expand employment by 300 over the next three years at their Dumfries plant. In Dunfermline, the production of a novel material by a US company is expected to expand sharply, with over 100 additional jobs being created.

*OTHER
MANUFACTURING*

In almost all other manufacturing sectors output expanded sharply between the first and second quarters of 1978. 13% increases occurred in bricks, pottery, glass and cement, and in timber, furniture etc. In the paper, printing and publishing industry, production increased by 10%, so raising it to 87% of 1970 levels. The October 1978 CBI Survey in Scotland confirmed this improvement with a net 16% of firms increasing output in the previous four months. Investment intentions, particularly with regard to plant and machinery, are fairly strong.

The bricks, cement and timber industries will each have benefited from the revival in the fortunes of the construction industry (see next paragraph), while glass, furniture and the paper industries have responded to increases in consumers' disposable income. The further expansion of construction expected in 1979, coupled with a much smaller increase in disposable income than that in 1978, implies that the short-term outlook for other manufacturing is one of continuing growth, albeit at a slower rate than in 1978.

CONSTRUCTION

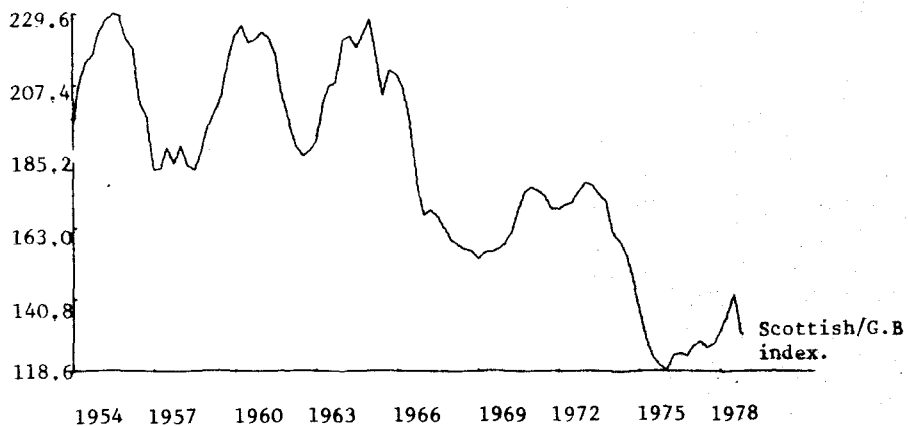
Having risen sharply between the final quarter of 1977 and the first quarter of 1978, output in the construction industry rose more slowly, by 1% to an index figure of 105 in the second quarter of 1978. In the UK, growth in the second quarter at 5% was considerably faster, but this was not maintained in the third quarter and the UK index declined by 1% to 105.9.

More recent, provisional figures on new orders suggest that, in the third quarter of 1978 there was no overall change in the level of construction activity. In the current financial climate, however, it is perhaps surprising that there was a shift during the third quarter away from the private sector, with the public sector expanding its orders to compensate. This may have been due to some particularly large contracts being signed and is unlikely to set a trend. Private sector housing, even given current high mortgage interest rates, is still expanding rapidly, while that in the public sector remains very depressed. The overall outlook for construction in 1979 is probably one of very slow growth. However, if public sector borrowing is seen to be excessive during the year, the likely governmental response will be to cut back on capital projects in the public sector, this being electorally more popular than increases in taxes or cuts in current spending.

There have been no new orders for oil platforms since the summer, although a new, smaller boom is expected. Department of Energy approval for development plans for BP's Magnus and Phillips' Maureen fields have been given. Design work for the large steel platform for Magnus has started and the order is expected to go to Highland Fabricators or McDermotts. Phillips have commissioned a new type of

UNEMPLOYMENT RELATIVE*SCOT/G.B. 1954-78

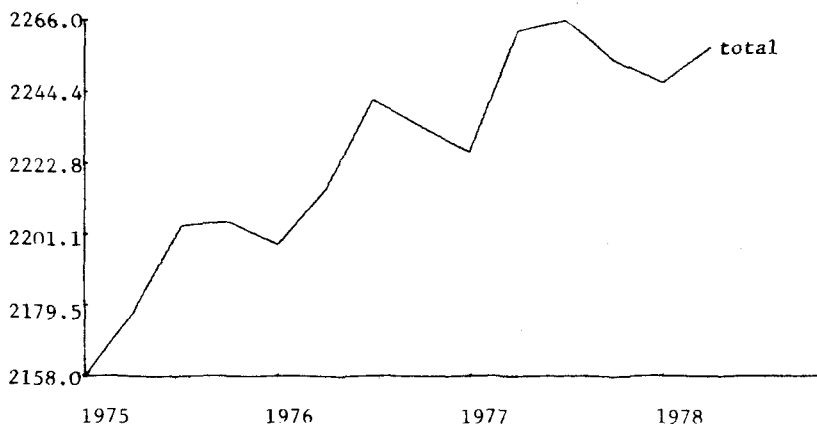
Figure 12



Source: Department of Employment

LABOUR SUPPLY IN SCOTLAND

Figure 13



Source: Department of Employment

platform - gravity based - and there are strong hopes at Loch Kishorn that the Howard Doris consortium will secure the contract. Shell Esso have recently submitted a development plan to the government and have invited bids for a jacket for a drilling and production platform for North Cormorant.

Employment at the three steel yards, Highland Fabricators, McDermotts and Redpath de Groot Caledonian is secure for the whole of 1979 and the yards are tendering for other contracts. The concrete yard of Howard Doris is operating on a limited basis and an application has been made to reclaim 29 acres from the sea to permit steel construction. If they secure the order for Maureen, employment could rise from 125 to 800. The other concrete yards have still no work and decisions on their future cannot be postponed indefinitely.

After intense lobbying, the Scottish Office, British Gas and BNOG will join in a joint venture to order a jack-up rig from Marathon which will subsequently become a state asset. The order may have come in time to ensure that redundancy notices, issued to 130 of the 1100 workforce, will be withdrawn.

EMPLOYMENT AND UNEMPLOYMENT

Provisional data (Table 1) show total employees in employment in Scotland as 2,078,000 in June 1978, an increase of 21,000 over March 1978, but a mere 1,000 increase over the figure for June 1977. In the year to June 1978, the major industries in which employment has declined are metal manufacture, textiles, leather and clothing, and distributive trades, while the main industries showing increases in employment are engineering and allied industries, financial, professional and other services, and public administration and defence.

Table 1 Employees in Employment : Scotland and England & Wales (000)

<u>Scotland</u>	Total	Males	Females	Manufacturing	All Other Industries
June 1977	2077	1202	875	613	1464
March 1978	2057	1188	868	610	1447
June 1978	2078	1202	877	611	1467
<u>England & Wales</u>					
June 1977	20095	11889	8206	6592	13503
March 1978	19990	11815	8176	6566	13424
June 1978	20135	11862	8272	6550	13585

Notes: Figures may not add to totals due rounding
Data are subject to revision

Source: Department of Employment Gazette

As Table 1 shows, male employment has remained static at 1,202,000, while there has been a net increase of 2,000 in female employment. The relationship between employment, labour supply and unemployment is discussed below.

Compared with the rest of Great Britain, Scotland shows a greater relative increase in employment in the second quarter of 1978, but a much smaller annual increase between June 1977 and June 1978. This may of course reflect a lag in Scotland's recovery, in which case Scotland's relative position may be expected

Table 2 Regional Analysis of Unemployment & Vacancies in the UK
December 1978

Region	Unemployed ¹ ('000)	Unemployment rate %	Vacancies ² ('000)	Unemployment/ Vacancies
South East	282.000	3.7	104.600	2.7
East Anglia	32.300	4.6	7.000	4.6
South West	95.400	5.9	15.000	6.4
West Midlands	117.600	5.1	13.800	8.5
East Midlands	73.600	4.7	15.700	4.7
Yorks & Humber	113.400	5.4	16.100	7.0
North West	188.700	6.7	17.800	10.6
North	111.300	8.2	11.500	9.7
Wales	82.400	7.7	8.600	9.6
Scotland	165.100	7.5	20.100	8.2
Great Britian	1262.500	5.4	229.900	5.5
N. Ireland	58.200	10.7	1.400	41.6
UK	1320.700	5.5	231.200	5.7

¹ Seasonally adjusted, excluding school-leavers

² Seasonally adjusted, excluding vacancies notified to careers offices.

Source: Department of Employment

to show an improvement during the second half of 1978.

Total registered unemployment in Scotland continued to decline throughout the final quarter of 1978, to reach 171,709 in December (including 5966 school-leavers). This corresponds to an unemployment rate of 7.8%, compared with 8.1% in September 1978 and 8.4% in December 1977. The seasonally adjusted figure (which excludes school-leavers) is down slightly to 165,100 which corresponds to an unemployment rate of 7.5%. Seasonally adjusted unemployment data for Scotland and other parts of the UK are shown in Table 2; at 4th highest in terms of unemployment rates, Scotland maintains the same ranking as in the previous quarter. At 139, the Scotland/Great Britain unemployment relative (Scottish unemployment rate as a percentage of the Great Britain unemployment rate) shows an improvement over the September 1978 figure of 143 (Figure 12). This change provides some support for the possibility suggested above, that Scotland's relative employment situation may have improved in the second half of last year.

In principle, adding together the number of employees in employment and the registered unemployed gives us an estimate of labour supply, though this will be less than the total labour supply since the employment data exclude the self-employed, and the unemployment data exclude an unknown number of persons of working age who, for various reasons may not be registered as unemployed. Bearing in mind these important qualifications, labour supply data are shown in Table 3 and Figure 13, for the period 1975 I to 1978 II. The main points to note from these data are as follows:

- (i) between 1975 I and 1977 II labour supply as defined increased by 100,000 (4.6%); over the same period unemployment increased by 79,000, figures which illustrate dramatically the extent to which new job creations have failed to keep pace with the growth in labour supply
- (ii) of this net increase of 100,000, 66,00 was due to an increase in female labour supply, and 34,000 to male labour supply
- (iii) there is a strong seasonal element in the data. In the period September-March, withdrawals usually outnumber additions to the labour force, while in the period March-September the opposite occurs. School-leavers of course enter the labour force during this latter period, but there may also be additional factors which contribute towards this seasonal variation, such as part-time or casual workers who enter the workforce during the spring and summer and do not subsequently register as unemployed.

Within the regions of Scotland, it is interesting to note that only Strathclyde shows a significant decrease in unemployment over the previous month (though very small decreases occurred also in Lothians, Central, Borders and Fife regions). Compared with the previous year, the greatest improvements have occurred in Strathclyde and Lothian; in the North and North-East, unemployment rates have generally remained unchanged, or have increased. Thus, except for Shetland, the buoyancy induced by North Sea Oil developments is no longer evident. However, unemployment rates in Grampian and Orkney, while not improving, are favourable by Scottish and UK standards.

Vacancies notified to employment offices and careers offices declined in December (compared with November) but the seasonally adjusted figure for vacancies is approximately constant at around 20,000. Table 4 records vacancies and unemployment/vacancies by region within Scotland. These indicate relatively poor employment prospects in all regions except Shetland, Grampian, Lothian and Borders, though as stressed in the previous issue of this Commentary, unemployment/

Table 3 Labour Supply in Scotland ('000) : Employees in Employment and Registered Unemployment 1975-78 (Quarterly data)

<u>1975</u>	<u>Males</u>	<u>Females</u>	<u>Total</u>
1	1289	869	2158
2	1296	871	2177
3	1317	887	2204
4	1317	888	2205
1976			
1	1316	882	2198
2	1315	900	2215
3	1330	912	2242
4	1318	916	2234
1977			
1	1314	912	2226
2	1328	935	2263
3	1330	936	2266
4	1323	931	2254
1978			
1	1319	928	2247
2	1323	935	2258
3			
4			

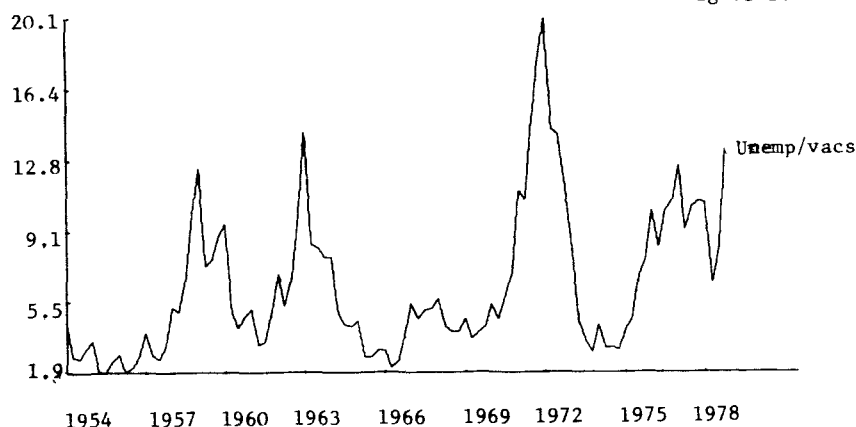
Data include school-leavers but not adult students temporarily registered as unemployed.

Source: Department of Employment

vacancy ratios have to be interpreted with considerable caution. In parallel with the static or worsening unemployment figures, the number of vacancies notified, and the unemployment/vacancies ratios, have deteriorated in the North and North East of the country. Given the more limited base for new employment creation in these regions, these relative movements suggest that, if there is to be an improvement in the unemployment situation within the next few months, it is more likely to occur in the more populous industrial areas of Central Scotland.

SCOTLAND: UNEMPLOYMENT/VACANCIES: 1954-78

Figure 14



Source: Department of Employment

Although the unemployment situation has improved in the last quarter of 1978, recent and prospective changes are marginal in relation to current levels of unemployment, in particular when it is remembered that much of the improvement noted can be attributed to the temporary employment subsidy and work experience programmes. Expectations of growth in the Scottish economy in 1979, taken in conjunction with plausible assumptions about the growth in labour supply and growth in labour productivity, do not allow much scope for a radical improvement in levels of unemployment. For instance, a 3% growth in output, allied with a 1% growth in labour supply, and a rate of increase in labour productivity of just under 2%, would leave unemployment constant. An increase of 1% in the rate of growth of output, or a fall of 1% in the postulated rate of growth of labour productivity (but the simultaneous occurrence of both is unlikely, since growth and productivity tend to be positively associated) could add around 20,000 to total employment, but on the basis of past and current trends this represents a very optimistic combination of events. Yet this would still leave total unemployment at over 150,000. These are only illustrative estimates, but they are sufficient to demonstrate the scale of the task of reducing unemployment to anything approaching the historical levels of the 1960's and early 1970's. Without a permanent upward shift in the trend rate of output growth, high levels of unemployment will continue at least until the mid-1980's.

Table 4 Regional Analysis of Unemployment and Vacancies in Scotland
December 1978

<u>Region</u>	<u>Unemploy- ment ('000)</u>	<u>Unemploy- ment Rate %</u>	<u>Rate Previous Month</u>	<u>Rate Previous Year</u>	<u>Vacancies</u>	<u>Unemploy- ment/ Vacancies</u>
Highlands	7.2	9.7	9.5	9.6	689	10.4
Shetland	0.2	2.9	2.7	3.2	231	0.9
Orkney	0.3	5.4	4.9	4.9	23	14.7
Western Isles	1.1	14.1	13.6	12.2	77	15.0
Grampian	8.1	4.5	4.4	4.6	2097	3.8
Tayside	12.9	7.5	7.5	7.5	1414	9.1
Fife	9.6	7.3	7.3	7.8	943	10.2
Strathclyde	98.1	9.0	9.2	10.0	9382	10.5
Lothian	20.7	6.1	5.8	6.9	3607	5.7
Central	7.4	6.5	6.5	7.0	833	8.8
Dumfries & Galloway	4.5	8.3	8.3	*	293	15.4
Borders	1.5	4.0	4.0	*	315	4.9
Scotland	171.7	7.8	7.8	8.4	10904	8.6

* Comparable figures not available due to boundary changes.

Data on unemployment include school-leavers, but not adult students, and are not seasonally adjusted. Data on vacancies include vacancies notified at employment offices and at careers offices, and therefore contain an element of double counting.

Source: Department of Employment.